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2003 Annual Report

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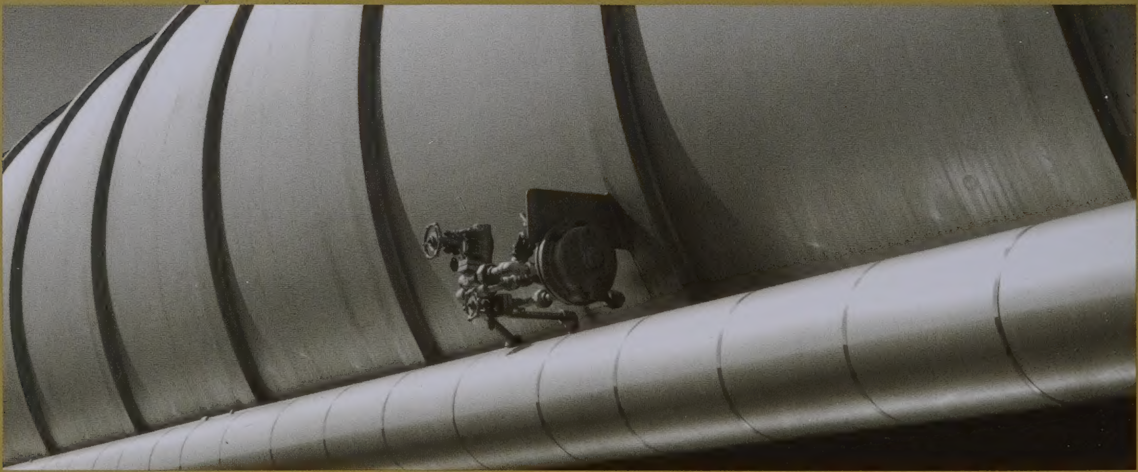


Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Meridian Energy Corporation is to be held at 3:00 p.m. on Thursday, May 27, 2004 in the Cardium Room of the Calgary Petroleum Club, located at 319 – 5th Avenue S.W. Calgary, Alberta.

Corporate Highlights

Year Ended December 31	2003	2002	% Change
Financial			
Gross Revenue	$ 3,434,034	$ 548,382	+526
Cash Flow from Operations	$ 1,557,629	$ (44,866)	+3,572
Per Share – basic and diluted	$ 0.07	$ 0.00	
Net income (loss) for the year	$ 335,203	$ (309,971)	+208
Per Share – basic and diluted	$ 0.01	$ (0.02)	
Outstanding Shares – weighted average	23,100,440	13,139,302	+76
Operating			
Daily Average Production (before royalties)			
Natural gas – thousands of cubic feet	930	253	+268
Oil & Ngls – barrels	79	12	+558
Combined – barrels of oil equivalent(1)	234	54	+333
Proved and Probable (Established) Reserves (before royalties)			
Natural gas – thousands of cubic feet	14,352,600	1,233,700	+1,063
Oil & Ngls – barrels	1,018,000	47,200	+2,057
Combined – barrels of oil equivalent(1)	3,410,100	252,800	+1,249
Pricing ($ Canadian)			
Natural gas – per thousand cubic feet	6.77	4.38	+55
Oil & Ngls – per barrel	37.67	24.26	+55
Combined – per barrel of oil equivalent (6:1)(1)	39.61	25.86	+53
Netbacks ($ per barrel of oil equivalent)(1)			
After royalties and operating costs	22.15	15.52	+43
Funds from operations	18.24	(2.27)	+904
Operating expenses	(7.33)	(6.48)	+13
General and administrative	(5.35)	(20.75)	-74

(1) Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

A Message to our Shareholders

Ray G. Smith
Chairman and CEO

Philip E. Collins
President and COO

Fiscal year 2003 was a year of outstanding growth for Meridian Energy Corporation. The Company was successful in charting its new course for the future by refocusing on organic growth, higher working interest oil and gas exploration, lower risk development drilling, and operating production. Meridian saw production increase from an average rate of 54 boed in 2002 to an exit rate of over 1,100 boed for 2003. Production, however, is being restricted due to downstream compression and pipeline capacities. Daily production fluctuates depending on available space. Meridian's 2003 drilling results at our new focused core area, Willesden Green, were superb and the subsequent production growth has laid a solid foundation for the Company to continue on its path of multi-fold growth through fiscal year 2004.

On May 30, 2003 Meridian successfully completed the acquisition of RayCal Energy Inc. by way of a takeover bid. RayCal shareholders received 15,035,002 Meridian common shares under the offer, which equaled 1.55 Meridian common shares at $0.90 per share for each RayCal common share tendered for a total consideration of $13,531,501. By combining the two companies, Meridian increased its working interest at Willesden Green, injected $6 million working capital to execute the fiscal year 2003 operational drill plan and repositioned the Company for the next important step, adding value.

On September 10, 2003 Meridian announced a $2.1 million flow-through financing. The private placement of one million flow-through shares was at a price of $2.10 per share. The net proceeds were used to fund the acceleration of Meridian's exploration and development drilling program.

On February 10, 2004 Meridian announced that it completed a private placement of 5,400,000 common shares at a price of $2.25 per share for net proceeds of $11,542,500. As a result, Meridian will expand its 2004 exploration and development capital budget to $23 million and plans to drill up to 50 gross wells. The financing is accretive and consistent with Meridian's strategy as it allows for acceleration of significant development drilling and ongoing exploration of its core area, Willesden Green.

Meridian's fundamental focus is unchanged and continues to be to increase shareholder value through a combination of exploration and subsequent exploitation. The Company exited 2003 with no debt, is in a solid positive cash position and controls excellent development product to execute the Company's business plan in 2004.

We believe the long-term outlook for the North American energy industry is attractive and that current energy market fundamentals will continue to support higher than average historical prices on a longer term basis. Recent industry success stories have demonstrated that early stage energy companies with experienced management and adequate financing represent the most exciting and profitable investment opportunity in the energy sector.

During 2003 Meridian participated in nineteen gross wells in seven different areas of interest which resulted in a 100% casing success rate. The nineteen gross wells resulted in six oil wells (5.14 net) and thirteen gas wells (6.34 net). As a result of this activity the Company's current production capability has increased to in excess of 1,100 boed.

Meridian Energy Corporation has had an excellent year in reserve growth; an increase of 1,249% was realized in proved and probable reserves from 252,800 boe in 2002 to 3,410,100 boe in 2003. The increase in reserves was accomplished with better than industry average metrics, the Company's finding and development costs, under NI 51-101, for 2003 are excellent at $8.90 proved and $6.33 proved and probable per boe. Meridian's recycle ratio is very good at 2.5 times proven reserves and 3.5 times proven plus probable reserves. The reserve replacement ratio is 22 times proven reserves and 34 times proved plus probable reserves.

In the Willesden Green area of west central Alberta, the Company has been very active in the past year. Willesden Green has evolved into the flagship property for the Company. Meridian now controls twenty-four and one quarter sections (24.25) of land acquired through farm-in and crown postings. The Company has an average working interest of 63% in this multi-zone area which is relatively undrilled. Early in 2004, Meridian secured the right to earn an additional five sections moving the controlled acreage to twenty-nine and a quarter (29.25) sections. In 2003, the Company participated in eleven operations at Willesden Green resulting in 100% success, encountering several hydrocarbon-bearing intervals. The formations currently producing from this core area are the Rock Creek, Ellerslie and Cardium. Production additions from the Viking, Second White Specs, Belly River, Edmonton and Paskapoo formations, as well as from the three cornerstone horizons discovered in 2003, are anticipated for 2004.

Effective January 1, 2004, the Company announced the appointment of Mr. Philip E. Collins as President and Chief Operating Officer. Mr. Raymond G. Smith will continue his duties as Chairman and Chief Executive Officer.

Meridian Energy Corporation possesses the capital, resources, expertise and focused investment strategy required to create exceptional growth in value for our shareholders. We are moving forward briskly in 2004, enthusiastic and confident that the Company is well positioned with a quality staff of professionals, operating superior drilling opportunities, and implementing a solid business plan.

We would like to close by thanking our staff for their efforts, our partners for their contributions, and our investors for their trust and confidence. We are satisfied with the result of the last eighteen months and confident in the solid position of the Company in the present; we have no question that continued success lies ahead for us in the future.

Philip E. Collins
President and Chief Operating Officer

Raymond G. Smith
Chairman and Chief Executive Officer

Exploration

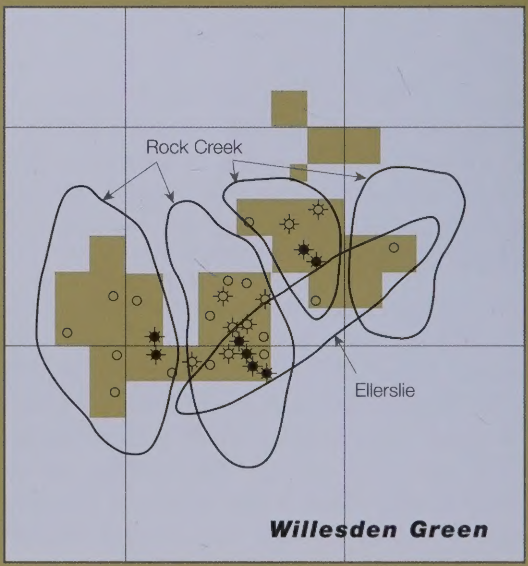
The key direction applied to exploration and development investment by Meridian is to target deep basin trapped gas reserves (resource plays) west of the fifth and sixth meridians, which offer better than average reserves and production additions. Meridian's growth strategy is for focused value creation through exploration by implementing internally generated prospects. Our intent is to stay focused in our core areas and continue to add value through drilling. We will employ our expertise hunting for liquid rich gas and light oil reservoirs. In 2003 we reorganized the exploration effort, concentrating on higher working interest and operated "organic growth" prospects. This strategy will continue in 2004 as Meridian directs the majority of its efforts to developing its core areas.

Meridian has an excellent inventory of development projects; we are well positioned to drill and/or re-enter up to 50 wells in 2004.

Our basic strategy remains in place: solid management and high success rate assures steady growth.

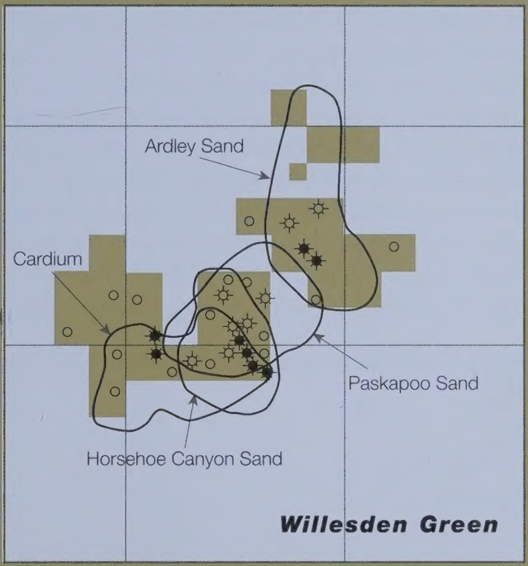
Willesden Green

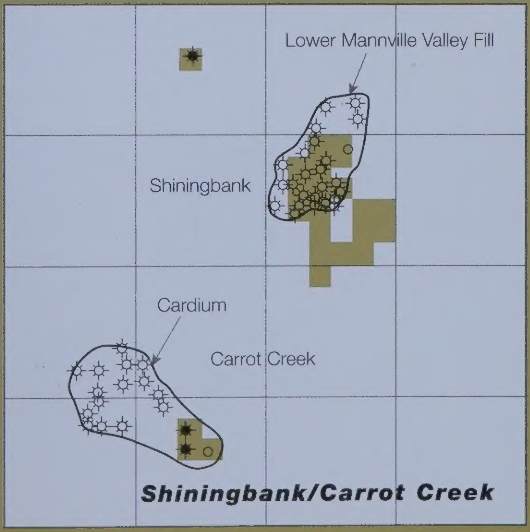
Willesden Green is a multi-zone, long life, light oil and liquid rich gas, moderately deep, area in west central Alberta. Our Willesden Green acreage is operated and has year round access. Meridian is pursuing Jurassic, Mannville and Cardium in this area. Our focus in 2004 will be to follow up on our recent discoveries and delineate the prospective pools. The Company will explore for a number of shallow formations encountered in 2003 while drilling through for the deeper horizons. Production from several new formations in this coming year is expected from the Viking, Second White Specs, Edmonton and Paskapoo.



This core area could see, rig and services dependent, exploration and development drilling of up to 50 wells in 2004. Considerable development is needed to fully delineate the Rock Creek, Ellerslie and Cardium discoveries made in 2003 and a significant exploration and development effort is required in quantifying the shallow gas potential on our land holdings through 2004. Meridian is aggressively pursuing several production optimization scenarios to operate and control our production increases and minimize operation and processing costs.

Meridian owns and controls twenty-four and one quarter (24.25) sections in Willesden Green, at an average working interest of 63%. The Company is always active in pursuing other crown and farmin opportunities and will spend a significant amount of time and effort in 2004 adding to our acreage position. Early in 2004, Meridian tied-up five additional sections which brings our controlled land to 29.25 sections. Meridian's oil product is excellent quality at 41 degree API and the gas product is extremely liquid rich, yielding 42 boe/mmcf of gas. Maintaining a high success rate at Willesden Green in 2004 will position the Company for further growth.





Shiningbank

Shiningbank is operated and Meridian has an 85% WI in 10,240 gross undeveloped acres. The area has medium depth, long life liquids rich gas production, and is located in west central Alberta with year round access. In 2004 Meridian will operate one 100% re-entry hunting for lower Mannville gas.

Carrot Creek

Carrot Creek is located in west central Alberta with year round access. Meridian made a Cardium discovery in 2003 and will follow up the discovery well with potentially two wells in 2004. Abundant pipeline infrastructure and underutilized facilities exist within close proximity to our prospect. Meridian has a 50% W.I. BPO (30% APO) in one section of land and a 30% interest in two other sections in this area.

Major Producing Properties

The Willesden Green area has emerged as the core producing property for the Company. The activity in the Willesden Green area included the drilling of 10 gross wells (6.74 net), the re-entry of one gross well (0.70 net), the installation of 11,740 meters of 114.3 mm pipeline, the installation of 3270 meters of 168.3mm pipeline and the installation of two 400 brake horsepower compressors. As of year end, six wells were on production producing from single zones while two wells were on production each producing from two zones. The gas is transported through a third party gas gathering system and processed through a different third party gas plant. Net production on December 31, 2003 from all eight wells was 1,000 boed. Gas production has been restricted in the Willesden Green area due to compressor limitations and limitations in the third party gas gathering system. This bottle neck will be resolved by either building a new gas plant to serve the immediate area or installing an additional pipeline and compressor station to facilitate tieing in downstream of the third party compressor. Barring any objections to its construction, the estimated on-stream date of a new gas plant could be September/October 2004. The installation of additional pipeline and by-passing the third party compressor could result in additional production as early as July 2004.

Production summary for the year ended December 31, 2003:

Area	Gas (mcf)	Oil & Ngls (bbl)	Total (boe)	Percent of total
Willesden Green	227,477	22,294	60,207	70.5
Westerose	37,407	1,917	8,151	9.5
Gordondale	38,327	72	6,460	7.6
Rimbey	10,306	879	2,597	3.0
Granada	11,680	438	2,384	2.8
Northville	6,040	1,165	2,172	2.6
Others	8,239	2,049	3,422	4.0
Total	339,476	28,814	85,393	100.0

Ving Woo, Vice-President, Engineering; Philip Collins, President and COO; Ray Smith, Chairman and CEO

Reserves

Sproule Associates Limited provided an independent evaluation of Meridian's reserves as of January 1, 2004 using the mandatory New Standards of Disclosure for Oil and Gas Activities as defined by National Instrument 51-101 (NI 51-101). The NI 51-101 should significantly enhance the quality, consistency, timeliness and comparability of information provided by public oil and gas issuers. The tables below summarize the proved and probable additional crude oil, ngls and natural gas reserves of the Company's properties. The discounted value of the future net revenues therefrom is based upon the escalated price assumptions utilizing the "Product Price Forecast" effective January 1, 2004 as prepared by Sproule Associates Limited. The present worth values of the net reserves set forth in the tables are stated prior to any provisions for income taxes, and after deduction of all royalties as well as estimated capital and operating costs. Allowance has been made for future well abandonments and lease reclamation costs.

	Company Interest Reserves Before Royalty				Future net revenue [7], including ARTC, before income taxes discounted at the rate of	
	Gas (mmcf)	Oil (mstb)	Liquids (mstb)	Total (mboe)[6]	0% ($000)	10% ($000)
2003[1]						
Proven developed producing	6,196.8	174.7	218.9	1,426.4	24,823	18,270
Proven undeveloped	3,492.0	84.9	129.9	796.8	8,768	5,340
Total proven[3]	9,688.8	259.6	348.8	2,223.2	33,591	23,610
Probable additional[4]	4,663.8	256.4	153.2	1,186.9	19,735	7,530
Total proved plus probable	14,352.6	516.0	502.0	3,410.1	53,326	31,140
2002[2]						
Proven developed producing	805.9	1.8	33.5	169.6	2,993	1,967
Proven developed non-producing	–	–	–	–	–	–
Proven undeveloped	–	–	–	–	–	–
Total proven	805.9	1.8	33.5	169.6	2,993	1,967
Probable additional	427.8	–	11.9	83.2	1,416	627
Total established[5]	1,019.8	1.8	39.4	211.2	3,701	2,281

(1) As evaluated by Sproule Associates Limited in its report with an effective date of January 1, 2004.

(2) As evaluated by McDaniel & Associates Consultants Ltd. in its report with an effective date of January 1, 2003.

(3) Proved reserves as defined by NI 51-101 are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves.

(4) Probable reserves as defined by NI 51-101 are those additional reserves that are less certain to be recovered than Proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved + Probable reserves.

(5) Total established is derived from the total Proven plus taking 50% risk-weighted value of the Probable additional.

(6) Using a gas to oil equivalent of 6:1.

(7) Field prices have been determined using the following forecasts of reference crude oil and natural gas prices. For crude oil, adjustments are made for the historical quality and transportation differentials applicable to each specific property. For natural gas, adjustments are made for the heating value. An allowance for inflation was deducted in arriving at the Company's share of future net revenues.

Sproule Price Forecast

Year	WTI Crude Oil $U.S./bbl	Crude Oil and Condensate $Cdn/bbl	AECO Spot Natural Gas $Cdn/mmbtu
2004	29.63	37.99	6.04
2005	26.80	34.24	5.36
2006	25.76	32.87	4.80
2007	26.14	33.37	4.91
2008	26.53	33.87	4.98

Reconciliation of Reserves

	Crude oil and Ngls (mstb)			Natural gas (mmcf)			Oil Equivalent (mboe)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
January 1, 2003	35.3	11.9	47.2	805.9	427.8	1,233.7	169.6	83.2	252.8
Production	(28.8)	–	(28.8)	(339.5)	–	(339.5)	(85.4)	–	(85.4)
Dispositions	–	–	–	–	–	–	–	–	–
Additions	613.9	397.8	1,011.7	9,559.4	4,470.3	14,029.7	2,207.1	1,142.9	3,350.0
Revisions	(12.0)	(0.1)	(12.1)	(337.0)	(234.3)	(571.3)	(68.1)	(39.2)	(107.3)
January 1, 2004	608.4	409.6	1,018.0	9,688.8	4,663.8	14,352.6	2,223.2	1,186.9	3,410.1

Land Holdings

Mike Lock
Land Consultant

The following table sets out Meridian's land holdings as at December 31, 2003:

	Gross	Net
Developed	15,840	4,518
Undeveloped	33,681	20,378
Total	49,521	24,896

As of December 31, 2003, Meridian had an average working interest of 60% in its undeveloped land base, 73% of which is concentrated in the Willesden Green and Shiningbank areas. Willesden Green was the core focus for the Company in 2003; Meridian added a total of 13,600 gross (8,583 net) acres through crown land sales and the acquisition of RayCal Energy Inc. During 2003, Meridian spent $225,566 to acquire 1,394 net acres at crown land sales for an average acquisition cost of $161.81 per acre.

Meridian's major undeveloped land areas at the end of 2003:

			Acres	% of Total
Shiningbank	Twp 57	Rge 14W5M	8,704	43
Willesden Green	Twp 43 & 44	Rge 7W5M	6,257	31
Leaman	Twp 57 & 58	Rge 10W5M	1,280	6
Pembina	Twp 49 & 50	Rge 7W5M	1,232	6
Miscellaneous			2,905	14
Total			20,378	100%

In the first quarter of 2004, Meridian secured 3,200 additional gross acres through a Farmout and Option Agreement and purchased 90 net acres via crown land sales.

Finding and Development Costs

Finding and Development Costs

Years ended December 31	2003	2002	2001
Exploration and development costs ($ thousands)	11,353	539	276
Reserve additions (net of revisions)			
Proved			
Gas (mmcf)	8,260	338	270
Oil and Ngls (mmstb)	525	10	17
Boe (mboe)	1,902	66	62
Probable			
Gas (mmcf)	3,912	211	(134)
Oil and Ngls (mmstb)	354	7	(13)
Boe (mboe)	1,006	42	(35)
Finding and development costs per boe(1)(2)			
Before future development costs			
Proved ($)	8.80	8.17	4.45
Proved plus probable ($)	5.99	4.99	10.22
After future development costs(3)			
Proved ($)	8.90	8.17	4.45
Proved plus probable ($)	6.33	5.88	10.22

The average finding costs for the three years ended December 31, 2003 were $8.74 per proved boe and $6.35 per proved and probable boe.

Netbacks and Recycle Ratios(1)

Years ended December 31	2003	2002	2001
Operating netback per boe(4)	$ 22.15	$ 15.52	19.32
Recycled ratios (after future development costs)			
Proved reserves	2.5	1.9	4.3
Proved plus probable reserves	3.5	2.6	1.9

(1) Boes may be misleading, particularly if used in isolation. A boe conversion ration of 6 mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

(3) Reflects future development costs for proved and probable reserves of $5.6 million and $1.6 million respectively included in the Sproule Report as of January 1, 2004.

(4) Includes revenue less royalties and operating costs.

Management's Discussion & Analysis

Shannon Matthyssen
Vice-President, Finance & CFO

The following is a discussion of management's analysis of the operating and financial activities of Meridian for 2003 and the prior year, as well as estimates of future operating and financial performance based on information currently available.

Cash flow from operations as used in this discussion and analysis by management is not defined under generally accepted accounting principles. The reconciliation between net income and cash flow from operations can be found in the statements of cash flows in the audited financial statements. Cash flow from operations per share is calculated using the weighted average shares outstanding consistent with the calculation of income (loss) per share.

Certain disclosure is presented on a per barrel of oil equivalent (boe) basis. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Forward Looking Statements

Certain information contained throughout this annual report, including management's assessment of Meridian's future plans and operations are not historical facts and may be considered forward looking statements. By their very nature, such statements involve inherent risks and uncertainties, many of which are beyond Meridian's control.

Actual results could differ materially from those currently anticipated due to any number of factors, including such variables as new information regarding recoverable reserves, competition from other producers, changes in commodity prices, legislative, environmental and other regulatory and political changes and other factors discussed in this annual report. Accordingly, no assurance can be given that any events anticipated by the forward looking statements will occur and what the actual effect on Meridian will be.

The following discussion and analysis should be read in conjunction with the audited financial statements and accompanying notes for the years ended December 31, 2003 and 2002.

2003 Highlights

- Highly successful drilling results with a 100% casing success rate, resulting in six gross (5.14 net) oil wells and 13 gross (6.34 net) gas wells.
- On May 30, 2003, Meridian completed the acquisition of RayCal Energy Inc., a private company.
- In October 2003, the Company completed a $2.1 million flow-through share financing.
- Production increased from an average of 75 boed for the month of December, 2002 to an average 753 boed for the month of December, 2003.

Growth in Value – Meridian's Strategy

The management team of Meridian believes that growth through the drill bit will lead to the highest rate of return on shareholder investment. To reduce the risks inherent in the oil and gas industry, management has focused its activities in 2003 towards drilling deep basin trapped gas reserves west of the fifth meridian. Our business strategy remains to concentrate our efforts on company generated and operated, high working interest prospects in the Willesden Green

area where management's experience has helped to detect previously by-passed zones. In 2004, the Company will continue to develop existing zones and also plans to explore potential shallow gas opportunities in the area.

The Company has experienced phenomenal success through the drill bit in the past year and plans to continue to increase shareholder value with the drilling of up to 50 wells in 2004. Management moves quickly upon good drilling results to ensure production is enabled by timely regulatory filings and facility tie-ins. Plans for pipeline construction in 2004 should allow Meridian to more than double its current production by year end.

Results of Operations

Production

	2003			2002		
	Gas (mcfd)	Oil & Ngls (bpd)	(boed)	Gas (mcfd)	Oil & Ngls (bpd)	(boed)
Willesden Green	623	61	165	–	–	–
Westerose	102	5	22	127	7	28
Gordondale	105	–	18	48	–	8
Carrot Creek	49	4	12	–	–	–
Rimbey	28	2	7	47	4	12
Other	23	7	10	31	1	6
	930	79	234	253	12	54

During 2003, Meridian demonstrated consistent production growth, primarily through the drill bit at Willesden Green. Total production increased by 333% from an average of 54 boed during 2002 to 234 boed for 2003. Production for December, 2003 averaged 753 boed and the Company expects to have a 2004 exit rate of 2,750 boed and an average rate of 1,650 boed for 2004.

Revenues

Petroleum and natural gas sales increased from $489,256 in 2001 to $548,382 in 2002 and to $3,434,034 in 2003 due to increases in both production and commodity prices as follows:

Petroleum and natural gas sales	2003	2002
Natural gas sales	$ 2,296,844	$ 405,209
Crude oil and Ngls	1,085,385	105,373
Royalty revenues	51,805	37,800
	$ 3,434,034	$ 548,382

Sales variance analysis	2003	2002
Natural gas sales		
Volume increase	$ 1,081,269	$ 149,915
Price increase (decrease)	810,366	(96,315)
Crude oil and Ngls sales		
Volume increase	594,394	6,869
Price increase (decrease)	385,618	(21,004)
Royalty revenues increase	14,005	19,661
Combined sales change from previous year	$ 2,885,652	$ 59,126

Average selling prices	2003	2002
Natural gas ($/mcf)	6.77	4.38
Oil and Ngls ($/bbl)	37.67	24.26
Total ($/boe)	39.61	25.86

Marketing

Meridian markets its oil, natural gas and liquids in the Alberta spot markets at various delivery points.

Royalties

Meridian's royalty rate averaged 25% for 2003 as compared to 14% for 2002 for many reasons. The average royalty rate for Willesden Green during 2003 was 29% due to farm-in arrangements and the 3% gross overriding royalty paid to management on RayCal's interest in the area. Higher gas prices and production rates have also increased royalties.

Royalties		2003		2002
Crown	$	693,061	$	87,208
Gross overriding		286,013		363
Management override		48,773		–
Freehold		10,344		10,324
ARTC		(173,322)		(21,745)
Net royalties as a percentage of revenue	$	864,869	$	76,150

Royalty rates (as a % of revenue)	2003	2002
Crown	20	16
Gross overriding	9	–
Management override	1	–
Freehold	–	2
ARTC	(5)	(4)
Net royalties as a percentage of revenue	25	14

Operating Expenses

Operating expenses increased in 2003 mainly as a result of higher production volumes. A major repair at Rimbey also contributed to the increase in costs from $6.48 to $7.33 per boe during the year. Meridian is currently paying high compression and processing fees for its Willesden Green production but has re-negotiated certain costs which, along with new pipeline construction planned for mid 2004, will reduce operating expenses per boe considerably.

		2003		2002
Operating costs	$	626,102	$	127,927
Operating costs per boe	$	7.33	$	6.48

Operating Netbacks

Higher oil and gas prices have resulted in a strong netback for Meridian in 2003.

($/boe)		2003		2002
Average sales price	$	39.61	$	25.86
Royalties		(10.13)		(3.86)
Operating expenses		(7.33)		(6.48)
Operating netback	$	22.15	$	15.52

Depletion and depreciation

Depletion and depreciation increased to $885,840 in 2003 from $221,105 due to higher production levels and increased capital expenditures.

Depletion and depreciation		2003		2002
Petroleum and natural gas properties	$	851,031	$	211,431
Furniture and fixtures		13,085		7,328
Future site restoration		21,724		2,346
Total	$	885,840	$	221,105
Depletion and depreciation per boe	$	10.37	$	11.20

On a per boe basis, the depreciation and depletion rate decreased from $11.20 per boe to $10.37. At December 31, 2003, Meridian had a ceiling test cushion of approximately $17 million based on the December 31, 2003 wellhead price of $40.68/bbl for oil, $37.79/bbl for Ngls and $6.88/mcf for natural gas.

General and Administration

Increased activity has resulted in higher general and administrative expenses in 2003 mainly as a result of increased salaries and consulting fees. Direct costs associated with the exploration department have been capitalized, a policy consistent with generally accepted accounting policies that Meridian adopted effective January 1, 2003.

		2003		2002
Gross general and administration	$	998,444	$	550,707
Recoveries from RayCal		(209,668)		(140,911)
Capitalized geological costs		(251,000)		–
Overhead recoveries		(80,910)		–
Net general and administration	$	456,866	$	409,796
Net general and administration expenses per boe	$	5.35	$	20.75

Meridian's gross general and administrative costs will increase further in 2004 as a result of expanded office space and additional personnel as needed to accommodate the Company's growth. On a per boe basis however, general and administrative expenses should decrease significantly in 2004.

Stock Based Compensation Expense

Effective January 1, 2003, the Company prospectively adopted the fair value method of accounting for stock options. Compensation expense for options granted during 2003 is based on estimated fair values determined using a Black-Scholes options pricing model. In 2003, total compensation expense of $851,250 was realized of which $439,405 was recognized in 2003 based on when the options vest. In 2004, $283,751 of stock based compensation expense related to the grant of options in 2003 will be recognized.

Taxes

The growth of the Company has resulted in a liability for the large corporations tax for the first time which totalled $23,165 in 2003. A future tax liability of $720,000 was booked upon the acquisition of RayCal Energy Inc. in May 2003. The tax liability was increased by the tax effect of $407,500 arising from the flow-through share offering and decreased by $69,681 by the tax effect on share issuance costs. Changes in substantially enacted corporate income tax rates resulted in the recognition of a future income tax recovery of $102,819 in income resulting in a net future income tax liability of $955,000. There was no cash income tax provision in 2003 and none is expected for 2004.

Tax Pools

Meridian has tax pools available to reduce future taxable income at December 31, as follows:

	Deduction Rate	2003 $	2002 $
Canadian exploration expenses	100%	3,655,000	806,000
Canadian development expense	30%	4,556,000	90,000
Canadian oil & gas property expense	10%	1,203,000	417,000
Capital cost allowance	20-30%	3,105,000	603,000
Share issue costs	20%	398,000	137,000
Non-capital loss carry forward	100%	2,313,000	263,000
Alberta attributed royalty income deduction		1,062,000	710,000
Total		16,292,000	3,026,000

Net Income

As a result of significantly increased oil and natural gas production and increased commodity prices received in 2003, the Company earned a net income of $335,203 for the year as compared to a loss of $309,971 incurred in 2002. Based on the weighted average number of common shares outstanding during 2003 of 23,100,440 (2002 – 13,139,302), earnings per share was $0.01 for 2003 as compared to a loss of $0.02 for 2002.

Cash Flow

Increased revenues from oil and gas were only partially offset by higher operating and general and administrative expenses resulting in an increase in cash flow from operations from $(44,866) in 2002 to $1,557,629.

		2003		2002
Cash flow	$	1,557,629	$	(44,866)
Cash flow per boe	$	18.24	$	(2.27)
Cash flow per share (basic and fully diluted)	$	0.07	$	(0.00)
Cash flow as a percentage of gross sales		45%		(8%)

Shareholders' Equity

On May 27, 2003, the shareholders of Meridian approved the consolidation of the common shares of the Company on a two for one basis.

On May 30, 2003, the Company completed the acquisition of RayCal Energy Inc., a private oil and gas company, in exchange for 15,035,002 common shares of Meridian.

The Company completed a $2.1 million financing in October, 2003 resulting in the issuance of 2.1 million flow-through shares, the tax benefits of which were renounced to the subscribers for 2003. Expenses relating to the offering totalled $170,996. An additional $27,000 was raised during the year pursuant to the exercise of stock options.

As a result of these share transactions, the number of shares outstanding had increased to 30,216,608 at the end of 2003.

Also on May 27, 2003, the shareholders approved the reduction of stated capital by an amount equal to the deficit derived prior to the acquisition of RayCal which amounted to $2,525,583 on May 30, 2003. It was recommended that the new management team of Meridian start with no deficit so that the Company's financial results more appropriately reflect the performance of Meridian going forward.

Capital Expenditures

The Company participated as to its share in the drilling of nineteen gross (11.5 net) wells in 2003 reflecting management's intentions to grow through the drill bit.

Capital expenditures have been incurred over the past two years as follows:

	2003 $	2002 $	% Change
Drilling and completions	8,670,646	288,336	+2,907
Equipment and facilities	2,879,628	85,996	+3,249
Land and maintenance	255,681	155,772	+64
Seismic	64,524	8,696	+642
Total capital expenditures	11,870,479	538,800	+2,103
Disposals	–	125,000	–
Net capital expenditures	11,870,479	413,800	+2,769

Liquidity and Capital Resources

Capital expenditures in 2003 were funded by the $2.4 million cash on hand at the end of 2002, working capital of $6.0 million received upon the acquisition of RayCal, current year's cash flow of $1.6 million and from the net proceeds of $2.0 million raised through the issuance of shares.

Recognizing that the Company would require additional capital to continue its successful exploration efforts at Willesden Green, the Company entered into a credit agreement in December, 2003 with a major Canadian chartered bank which provides a $2,000,000 revolving credit facility. The amount of the facility will be revised upon a review of the Company's independently evaluated reserves which is to occur in the spring of 2004. A $20,000,000 demand debenture conveying a first floating charge on the Company's assets in pledged as collateral.

Meridian did draw down the facility in 2004 prior to the closing of a financing on February 10, 2004 whereby 5,400,000 common shares were issued at $2.25 per share for net proceeds of $11,542,500.

The proceeds from the private placement will be used, in addition the Meridian's estimated 2004 cash flow of $11,000,000 to continue the Company's efforts in the Willesden Green area. Meridian anticipates the drilling of up to 50 gross wells in 2004. Additional capital, if necessary for major infrastructure facilities, may be obtained from the credit facility.

The Company is committed to maintaining a strong balance sheet to minimize exposure to volatile product prices and to maximize its ability to participate in opportunities that arise both internally and from industry partners.

Business Risks, Environment and Safety

The oil & gas industry is subject to uncertainties and risks including the volatility of commodity prices, changes in market demand for products, exploration success, transportation interruptions, foreign exchange and interest rates, government regulations and taxes, environmental impact and safety concerns.

Meridian strives to minimize these risks by proper management of these factors. The Company employs a highly qualified staff of professionals, maintains a strong and flexible financial position and maintains proactive environmental and safety operating procedures. Policies are designed internally to successfully deal with the extensive regulations of the oil and gas industry. Meridian is committed to minimizing the effects of its activities on the environment and protecting its employees. Meridian has a formal Emergency Response Plan setting out procedures that employees

and contractors must follow in the event of an operational emergency. The Company maintains comprehensive insurance to cover risks of well blowouts and pollution as well as coverage for personnel and directors executing their corporate duties.

Meridian will continue to focus on low cost reserve additions and cash flow optimization to sustain its growth. Concentrating its efforts in areas with multi-zone potential and existing in-house expertise will minimize exploration risks. Extensive geological, geophysical, engineering, environmental and financial analyses are performed on new drilling prospects and potential acquisitions.

Outlook

During the first quarter of 2004, Meridian drilled nine gross (5.2 net) additional wells resulting in estimated increased production capability of 750 boed which is currently behind pipe. As soon as road bans are removed in the spring, the Company plans to resume an aggressive development drilling program. Meridian will proceed with plans to install additional infrastructure required to transport gas and Ngls to lower cost processing facilities.

The Company is well financed to carry out its planned activities. We believe that our opportunities present an appropriate risk profile to provide our shareholders with rapidly increasing growth through 2004.

Management's Report

The financial statements of Meridian Energy Corporation and all information included in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include management's best estimates and judgements, where required. The financial information contained elsewhere in this annual report is consistent with the financial statements.

Management is also responsible for maintaining a system of internal controls to provide reasonable assurance that the financial records are reliable, transactions are appropriately authorized and that assets are safeguarded from loss or unauthorized use.

The Audit Committee of the Board of Directors meets during the year to review the financial statements with management and the external auditors before they are submitted to the Board of Directors for approval.

Ernst & Young LLP, the independent external auditors, have been appointed by the shareholders to express an opinion as to whether the financial statements present fairly the Company's financial position, results of its operations and its cash flows in accordance with GAAP. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Ray G Smith

Raymond G. Smith
Chairman and CEO

S J Matthyssen

Shannon J. Matthyssen
Vice-President, Finance & CFO

March 17, 2004

Auditors' Report

To the Shareholders of Meridian Energy Corporation:

We have audited the balance sheet of Meridian Energy Corporation ("the Company") as at December 31, 2003 and the statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 14, 2003.

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants

Calgary, Alberta
March 17, 2004

Balance Sheets

December 31	2003	2002
ASSETS (note 6)		
Current		
Cash and cash equivalents	$ 243,438	$ 2,404,769
Accounts receivable	3,545,809	258,839
Prepaid expenses and deposits	87,617	51,820
	3,876,864	2,715,428
Property, plant and equipment (note 5)	18,561,894	2,110,981
Goodwill (note 4)	2,980,000	–
	$ 25,418,758	$ 4,826,409
LIABILITIES		
Current		
Accounts payable (note 7)	$ 4,113,653	$ 422,322
Future site restoration	54,581	32,857
Future income taxes (note 9)	955,000	–
Commitments (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 8)	19,434,726	6,810,623
Contributed surplus (notes 3 and 8)	497,405	58,000
Retained earnings (deficit)	363,393	(2,497,393)
	20,295,524	4,371,230
	$ 25,418,758	$ 4,826,409

See accompanying notes to the financial statements

Signed on behalf of the Board,

Director

Director

Statements of Operations and Retained Earnings (Deficit)

Years ended December 31	2003	2002
Revenues		
Petroleum and natural gas sales	$ 3,434,034	$ 548,382
Royalties, net of Alberta Royalty Tax Credit (note 7)	(864,869)	(76,150)
Interest	94,597	20,625
	2,663,762	492,857
Expenses		
Operating	626,102	127,927
Depletion and depreciation (note 5)	885,840	221,105
General and administration (note 5)	456,866	409,796
Stock-based compensation (notes 3 and 8)	439,405	44,000
	2,408,213	802,828
Income (loss) before taxes	255,549	(309,971)
Taxes:		
Current	23,165	–
Future income tax recoveries	(102,819)	–
	(79,654)	–
Net income (loss) for the year	335,203	(309,971)
Deficit, beginning of year	(2,497,393)	(2,187,422)
Reduction of stated capital (note 8)	2,525,583	–
Retained earnings (deficit), end of year	$ 363,393	$ (2,497,393)
Income (loss) per share (basic and diluted)	$ 0.01	$ (0.02)

See accompanying notes to the financial statements

Statements of Cash Flows

Years ended December 31		2003		2002
Operating activities				
Net income (loss) for the year	$	335,203	$	(309,971)
Items not affecting cash:				
Future income tax recoveries		(102,819)		–
Stock-based compensation		439,405		44,000
Depletion and depreciation		885,840		221,105
Cash flow from operations		1,557,629		(44,866)
Increase in accounts receivable		(1,535,431)		(71,292)
Increase (decrease) in accounts payables		788,707		(10,268)
		810,905		(126,426)
Financing activities				
Issuance of common shares		2,100,000		–
Issuance of special warrants		–		2,250,000
Issuance costs		(170,996)		(220,827)
Exercise of stock options		27,000		21,250
Increase (decrease) in accounts payable		(79,041)		79,041
		1,876,963		2,129,464
Investing activities				
Capital expenditures		(11,870,479)		(538,800)
Acquisition of RayCal (note 4)		5,826,951		–
Disposal of property, plant and equipment		–		125,000
Increase in accounts receivable		(1,787,336)		(95,517)
Increase in accounts payable		2,981,665		146,123
		(4,849,199)		(363,194)
Increase (decrease) in cash and cash equivalents		(2,161,331)		1,639,844
Cash and cash equivalents, beginning of year		2,404,769		764,925
Cash and cash equivalents, end of year	$	243,438	$	2,404,769
Cash interest received during year	$	95,597	$	20,625

See accompanying notes to the financial statements

Notes to Financial Statements

1. INCORPORATION AND BUSINESS OF THE COMPANY

The Company was incorporated under the laws of the Province of British Columbia on December 18, 1992 under the name Meridian Petroleum Corporation. The business of the Company is the exploration for, acquisition, development and production of petroleum and natural gas reserves in the Western Canada Sedimentary Basin. On March 31, 1993, the Company changed its name to Meridian Energy Corporation and was continued under the laws of the province of Alberta on September 9, 1996. The shares of the Company trade on the TSX Venture Exchange under the symbol MDE.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. Management has made necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect the Company's financial position or results of operations. Significant accounting policies are summarized as follows:

(a) Cash and cash equivalents

The Company considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents, which are stated at the lower of cost and quoted market value. As at December 31, 2003, cash equivalents consisted of $nil (2002 – $2,299,026) in term deposits.

(b) Petroleum and natural gas properties

The Company follows the full cost method of accounting for oil and gas operations. All exploration, development and acquisition costs for oil and gas properties and related reserves are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, and geological and geophysical expenses and certain general and administrative expenditures directly related to exploration.

Gains or losses on the sale or disposition of petroleum and natural gas properties are not recognized unless recognition would result in a change of more than twenty percent in the depletion rate.

Capitalized costs of petroleum and natural gas properties, excluding the costs of unproved properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties. In order to calculate depletion, natural gas is converted to an equivalent volume of crude oil based on the approximate relative energy content using six thousand cubic feet of natural gas for one barrel of petroleum. Unproved properties are added to the depletion base as drilling activity commences on these properties and proven reserves are identified.

The Company applies a "ceiling test" to capitalized costs on a quarterly basis to ensure such costs do not exceed future net revenues from the estimated production of reserves. Future net revenues are calculated after deducting general and administrative costs, financing costs, income taxes and future site restoration costs. The calculation of future net revenues is based on sales, prices, costs and regulations in effect at the period end.

The estimated costs for future site restoration and abandonments are provided for on a unit-of-production basis. The estimates are based on current regulations and industry standards in effect at period-end. The charge is recorded as site restoration and the actual site restoration costs are charged to the site restoration provision as incurred.

(c) Joint ventures

The Company's oil and gas activities are conducted jointly with others. The financial statements reflect only the Company's proportionate interest in such activities.

(d) Furniture and equipment

Furniture and equipment are recorded at cost and are depreciated on a declining basis at twenty percent.

(e) Income Taxes

The Company uses the liability method of accounting for future income taxes. Under this method, future income taxes are recognized on the temporary differences between the tax basis of assets or liabilities and their carrying amounts in the financial statements. Future income taxes are computed using the substantially enacted corporate income tax rates in effect each year.

(f) Flow-through shares

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares whereby the tax attributes of the exploration expenditures are renounced to the share subscribers. To recognize the tax benefits renounced by the Company, the carrying value of the shares issued is reduced by the tax effect of the tax deductions received by the subscribers. The tax effect of the renouncement is recorded when the exploration expenditures are renounced.

(g) Per share amounts

The treasury stock method of calculating per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

Net income (loss) per share has been calculated based on the weighted average number of common shares outstanding during the year of 23,100,440 (2002 – 13,139,302).

(h) Stock option plan

Under the Company's stock option plan, options to purchase common shares are granted to directors, officers, employees and consultants at current market prices. Options issued by the Company in 2003 are accounted for in accordance with the fair value method of accounting for stock-based compensation, and as such the cost of the options is charge to earnings with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value determined using a Black-Scholes options pricing model.

(i) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(j) Measurement uncertainty

The amounts recorded for depletion, depreciation and amortization of oil and natural gas properties and equipment, the provision for future site restoration and abandonment costs and stock-based compensation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for stock-based compensation. As permitted by this new pronouncement, the Company prospectively adopted the fair value method of accounting for stock options granted to employees and directors. Stock-based compensation is recorded in the statement of operations as a separate expense for all options granted on or after January 1, 2003, with a corresponding increase recorded as contributed surplus. Compensation expense for options granted during 2003 is based on the estimated fair values at the time of the grants and the expense is recognized over the vesting period of the options.

Using the following assumptions: volatility factors of expected market price ranging from 47 to 60 percent, a weighted average risk-free interest rate of 3.13 percent, no dividend yield and a weighted average expected life of options of two years, the Company realized total compensation expense of $851,250 for options granted during 2003, of which $439,405 was recognized in the 2003 statement of operations based on when these options vest. Accordingly, basic and diluted earnings have been reduced by $0.02 per share.

Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather, the Company accounts for forfeitures as they occur. In the event that vested options expire without being exercised, previously recognized compensation expense associated with such stock options is not reversed.

For options granted prior to January 1, 2003, the Company continues to disclose the pro forma earnings impact of related stock-based compensation expense as is permitted by the new accounting pronouncement (see note 8).

4. ACQUISITION OF RAYCAL ENERGY INC.

On May 30, 2003, the Company acquired all of the issued and outstanding shares of RayCal Energy Inc. ("RayCal"), a privately owned oil and gas exploration company, for total consideration of $13,531,501 consisting of 15,035,002 Meridian common shares. The value of the consideration was based on the trading value of Meridian's stock on March 10, 2003, the date that the Company announced its intention to acquire RayCal.

The acquisition was accounted for using the purchase method. Additional direct costs of $187,732 for legal and financial advisor's fees incurred by the Company have been included as a cost of the acquisition.

The allocation of the purchase prices is as follows:

Working capital	$ 6,014,683
Property, plant & equipment	5,444,550
Goodwill	2,980,000
Future income tax liability	(720,000)
Net assets acquired	$ 13,719,233

Meridian and RayCal were amalgamated at the close of business on May 30, 2003. No income or expenses of RayCal prior to May 30, 2003 are included in the earnings of the Company.

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2003		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	$22,217,661	$ 3,708,106	$18,509,555
Furniture and equipment	172,221	119,882	52,339
	$22,389,882	$ 3,827,988	$18,561,894

	December 31, 2002		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	$ 4,938,745	$ 2,857,075	$ 2,081,670
Furniture and equipment	136,108	106,797	29,311
	$ 5,074,853	$ 2,963,782	$ 2,110,981

At December 31, 2003, the cost of petroleum and natural gas properties includes $1,556,000 (2002 – $619,000) relating to unproven properties that have been excluded from the depletion calculation.

Effective January 1, 2003, the Company began to capitalize certain general and administrative expenditures directly related to exploration. During 2003, $251,000 of such costs were charged to petroleum and natural gas properties.

6. BANK INDEBTEDNESS

In December 2003, the Company entered into a credit agreement which provides a $2,000,000 revolving credit facility with a major Canadian chartered bank. Interest will be calculated on the daily outstanding principal amount at prime plus 0.20% per annum with interest payable monthly. A $20,000,000 demand debenture conveying a first floating charge on the Company's assets is pledged as collateral. No amounts were drawn against the facility during 2003.

The facility is subject to review annually and may be renewed upon the end of its revolving phase on April 30, 2004.

7. RELATED PARTY TRANSACTIONS

(a) Certain officers had the right to participate in all prospects of the Company up to a maximum of 10% of the Company's working interests. Election to participate must be made prior to the commencement of drilling the initial well or prior to incurring the first risk expenditures on a well on the prospect. No such elections occurred in 2002. All such rights were relinquished by the officers prior to September 19, 2002.

(b) In September, 2002, the Company acquired certain office furniture from certain officers for a cash payment of $8,000.

(c) In September, 2002, the Company entered into an agreement with RayCal Energy Inc. ("RayCal"), a private corporation whose management was the same as that of the Company, whereby the two companies would jointly participate in the business of exploration, development and production of oil and gas on a basis whereby business opportunities and expenses would be shared with RayCal having a 75% interest and being responsible for 75% of the capital costs and the Company having a 25% interest and being responsible for 25% of the capital costs; general and administrative costs would be shared equally between RayCal and the Company.

Meridian invoiced RayCal for their share of costs as follows:

		2003		2002
Petroleum and natural gas properties	$	2,461,342	$	681,912
Furniture and fixtures	$	1,395	$	32,197
General and administrative expenses	$	209,668	$	140,911

As at December 31, 2002, RayCal owed the Company $4,846 related to general and administrative expenses and $39,777 related to petroleum and natural gas property expenditures incurred during the month of December, 2002. Net revenue earned by RayCal pursuant to the joint venture agreement was $151,650 for the five months ended May 30, 2003. The Company acquired RayCal on May 30, 2003 and the two companies were amalgamated on the same day.

(d) RayCal entered into a royalty agreement effective September 19, 2002 with three officers of the Company. The Royalty Agreement provides a three percent gross overriding royalty ("Royalty") payable to the Royalty Owners pertaining to five prospects proposed by those Royalty Owners to RayCal.

The Company has the right to buy back, at fair market value, each drilling spacing unit that is subject to the Royalty at any time after one year from the date production commenced from such spacing unit and to cancel, at no cost, all portions of the Prospect Lands which have not become producing spacing units five years after the date that Meridian acquired the shares of RayCal. In addition, the Royalty Owners have acknowledged that the Royalty interest shall only apply to a seventy-five percent interest in the Prospect Lands held by the amalgamated company.

During the period from May 31, 2003 to December 31, 2003, $48,773 was earned by the Royalty Owners of which $30,885 was payable on December 31, 2003.

8. SHARE CAPITAL

Authorized:

Unlimited Common voting shares

Issued:

	2003		2002	
	Shares	Amount	Shares	Amount
Common Shares				
Balance, beginning of year	13,263,206	$ 4,781,450	13,088,206	$ 4,760,200
Issued upon exercise of special warrants (c)	15,000,000	2,029,173	–	–
	28,263,206	–	–	–
Consolidation of shares (a)	14,131,606	–	–	–
Issued upon acquisition of RayCal Energy Inc. (note 4)	15,035,002	13,531,501	–	–
Private placement of flow-through shares (b)	1,000,000	2,100,000	–	–
Tax reductions renounced	–	(407,500)	–	–
Exercise of stock options (e)	50,000	27,000	175,000	21,250
Issuance costs	–	(170,996)	–	–
Tax benefits on issuance costs	–	69,681	–	–
Reduction of stated capital (h)	–	(2,525,583)	–	–
Balance, end of year	30,216,608	$19,434,726	13,263,206	$ 4,781,450
Special Warrants				
Balance, beginning of year	15,000,000	$ 2,029,173	–	–
Issued during year	–	–	15,000,000	$ 2,250,000
Issuance costs	–	–	–	(220,827)
Exercised during year (c)	(15,000,000)	(2,029,173)	–	–
Balance, end of year	–	–	15,000,000	2,029,173
Class B Shares				
Balance, beginning of year	–	–	1,400,000	14,000
Cancelled during year	–	–	(1,400,000)	(14,000)
Balance, end of year	–	–	–	–
Total share capital		$19,434,726		$ 6,810,623

(a) Consolidation of Shares

On May 27, 2003, the shareholders of the Company approved the consolidation of it's Class "A" Common Shares on the basis of one new Common Share for every two Class "A" Common Shares issued and outstanding. All outstanding options to acquire shares of the Company were adjusted accordingly.

(b) Flow-through Share Offering

On October 3, 2003, the Company issued 1,000,000 Common Shares pursuant to a private flow-through share offering. The gross proceeds of $2,100,000, of which $1,000,000 was incurred by December 31, 2003, will be used to incur qualifying flow-through expenditures, the tax benefits related thereto being renounced to the holders in 2003.

(c) Special Warrants

During 2002, the Company issued 15,000,000 special warrants at a price of $0.15 each for total proceeds of $2,250,000. Each special warrant entitled the holder thereof to acquire one Class A common share, at no additional cost, at any time until the close of business on September 19, 2003. All of the outstanding warrants were exercised and 15,000,000 Class A Common Shares were issued on January 8, 2003.

(d) Class B Common Voting Shares

The Class B common shares were entitled to one vote per share but were not entitled to dividends or to receive any share of assets upon liquidation or any other distribution of assets of the Company. The Class B common shares were convertible on a one-for-one basis into Class A common shares provided that, at the time of conversion, the Company had achieved certain performance levels and the escrow conditions imposed by any securities regulatory authority or stock exchange were no longer applicable. During 2002, all of the outstanding Class B common shares were surrendered back to the Company at no cost.

(e) Share Options

The Company adopted a stock option plan in 1998 whereby the number of shares that may be reserved for issuance pursuant to stock options shall not exceed ten percent of the outstanding common shares of the Company from time to time. No eligible optionee may hold stock options to purchase more than five percent of the outstanding common shares of the Company. Option prices and expiry dates are set by the Board of Directors upon issuance. A summary of the outstanding stock options as of December 31, 2003 and 2002 and changes during the years then ended follows:

	Year ended December 31, 2003		Year ended December 31, 2002	
Fixed Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	2,000,000	$ 0.27	990,000	$ 0.43
Consolidation of shares	1,000,000	0.54	–	–
Granted	1,455,000	1.71	2,000,000	0.27
Expired	–	–		
Exercised	(50,000)	0.54	(175,000)	0.12
Cancelled	(150,000)	1.12	(815,000)	0.50
Outstanding, end of year	2,255,000	1.26	2,000,000	0.27
Exercisable, end of year	1,335,000		2,000,000	

Options Outstanding and Exercisable as of December 31, 2003

Exercise Prices	Number Outstanding	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Number Exercisable
$0.54 to $1.85	2,255,000	4.172 years	$1.26	1,285,000

(f) Stock-based Compensation

As discussed in note 3, the Company continues to disclose the pro forma effect of stock-based compensation on net earnings and earnings per basic and diluted share for options issued prior to January 1, 2003. For the purposes of this pro forma disclosure, the Company calculated the value of stock-based compensation using a Black-Scholes option pricing model to estimate the fair value of stock options at the date of grant. The estimated fair value of options is amortized to expense over the options' vesting periods. For stock options granted in 2002, the Company's net earnings would have been reduced by $396,000 for the year ended December 31, 2002. Basic and diluted earnings per share figures would have been reduced by $0.05 for the 2002 year.

In calculating the fair value of the options granted in 2002, the assumptions made include a volatility factor of expected market price of 150 percent, a weighted average risk-free interest rate of 5.0%, no dividend yield and a weighted average expected life of options of 3 years. The pro forma amounts shown above do not include the compensation cost associated with stock options granted prior to January 1, 2002. The fair value of the 2002 common share options was estimated to be $440,000. The total fair value of the options granted to non-employees, officers and directors during the year was calculated to be $44,000 and has been included as a stock-based compensation expense for the year ended December 31, 2002.

(g) Contributed Surplus

Balance, December 31, 2001	–
Cancellation of Class B shares	$ 14,000
2002 Stock-based compensation expense	44,000
Balance, December 31, 2002	58,000
2003 Stock-based compensation expense	439,405
Balance, December 31, 2003	$ 497,405

(h) Reduction of Stated Capital

The elimination of the deficit derived prior to the acquisition of RayCal Energy Inc. on May 30, 2003 was ratified by the shareholders at the May 27, 2003 Annual and Special Meeting.

9. INCOME TAXES

Income taxes differ from the amounts which would be obtained by applying statutory income tax rates to income (loss) before income taxes as follows:

	2003	2002
Income (loss) before income taxes	$ 255,549	$ (309,971)
Statutory income tax rate	40.75%	42.24%
Computed for income taxes (recoveries)	$ 104,136	$ (130,932)
Increase (decrease) resulting from:		
Rate adjustments	(178,998)	–
Crown charges	255,359	35,607
Alberta royalty tax credit	(70,629)	(9,185)
Attributed Canadian royalty income	(43,180)	(11,494)
Stock based compensation	179,058	–
Resource allowance	(154,564)	–
Valuation allowance	(195,214)	120,339
Other items	1,213	(4,335)
Future income tax recoveries	$ (102,819)	$ –

	2003	2002
Future income taxes consist of the following temporary differences:		
Property and equipment	$ 2,151,395	$ 113,999
Non-capital loss carryforwards	(893,316)	(129,296)
Share issuance expenses	(151,347)	(74,875)
Alberta attributed royalty income	(132,836)	(94,633)
Future site restoration	(18,896)	(10,409)
	955,000	(195,214)
Valuation allowance	–	195,214
	$ 955,000	$ –

The following tax deductions are available to reduce future taxable income:

	2003	2002
Canadian oil and gas property expense	$ 1,203,000	$ 417,000
Canadian development expense	4,556,000	90,000
Canadian exploration expense	3,655,000	806,000
Undepreciated capital cost	3,105,000	603,000
Share issue costs	398,000	177,000
Non-capital losses	2,313,000	306,000
Alberta attributed royalty income	1,062,000	721,000

The expiry dates of the non-capital losses are as follows:

2004	101,000
2005	57,000
2007	92,000
2009	262,000
2010	1,801,000
	$ 2,313,000

10. FINANCIAL INSTRUMENTS

Fair Value of Financial Assets and Liabilities

The Company's financial instruments recognized in the balance sheet consist of accounts receivable and accounts payable. The fair values of the financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

Risk Management

The Company is exposed to credit-related losses in the event of default by counter-parties to financial instruments. The Company does not expect any counter-parties to fail to meet their obligations because the Company limits its transactions to counter-parties of high credit quality.

The nature of the Company's operations results in exposure to fluctuations in commodity prices and interest rates. As of December 31, 2003 and 2002 no controls to manage exposure to these risks were in place.

11. COMMITMENTS

The Company leases office premises under an agreement which expires April, 2005. The minimum lease payments required under the lease are: 2004 – $123,206 and 2005 – $44,192.

In November and December, 2003, the Company entered into rental agreements for certain compression equipment. The Company is committed to pay monthly rent on the equipment of $25,876 until May, 2004, upon which time the rental agreement may be cancelled with thirty days prior written notice.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

13. SUBSEQUENT EVENT

On February 10, 2004, 5,400,000 Common Shares were issued pursuant to a private placement at $2.25 per share for net proceeds of $11,542,500.

Corporate Information

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W.C. (Mickey) Dunn
Keith E. Macdonald
Norris R.M. Morgan
A. Gordon Stollery
Fred R. Thompson

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Chairman & CEO

Philip E. Collins
President & COO

Ving Y. Woo
Vice-President, Engineering

Shannon J. Matthyssen
Vice-President, Finance & CFO

Legal Counsel

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Calgary, AB

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Canadian Imperial Bank of Commerce
Calgary, AB

Auditors

Ernst & Young LLP
Chartered Accountants
Calgary, AB

Reserve Engineering Consultants

Sproule Associates Limited
Calgary, AB

Registrar and Transfer Agent

Computershare Trust Company
Calgary, AB

Stock Listing

Toronto Venture Exchange
Trading Symbol: MDE

Abbreviations

ARTC	Alberta Royalty Tax Credit
bcf	billion cubic feet
boed	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mcfd	thousand cubic feet per day
mmcfd	million cubic feet per day
Ngls	natural gas liquids
mmbtu	million British Thermal Units
bbls	barrels
boe*	barrels of oil equivalent
bpd	barrels per day
mcf*	thousand cubic feet
mmcf	million cubic feet
mstb	thousand barrels
mmstb	million barrels

*mcf is converted to boe at a 6 to 1 ratio reflecting the industry standard

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